



CITY OF NOVINGER, MISSOURI

YEAR ENDED JUNE 30, 2000

**From The Office Of State Auditor
Claire McCaskill**

Report No. 2000-84
August 31, 2000
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AUDIT REPORT

CITY OF NOVINGER, MISSOURI

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CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
And
Board of Aldermen
City of Novinger
Novinger, Missouri 63559

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Novinger, Missouri. Our audit of the city included, but was not limited to, the year ended June 30, 2000. The objectives of this audit were to:

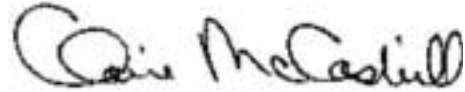
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in the audit of the city.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to the auditing procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the city of Novinger, Missouri.

A handwritten signature in black ink, appearing to read "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

July 10, 2000 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Karen Laves, CPA
Audit Manager:	Mark Ruether, CPA
In-Charge Auditor:	Gary Boehmer, CPA

HISTORY AND ORGANIZATION

CITY OF NOVINGER, MISSOURI HISTORY AND ORGANIZATION

The city of Novinger is located in Adair County. The city was incorporated in 1904 and is currently a fourth-class city. The population of the city in 1990 was 542.

The city government consists of a mayor and a four-member board of aldermen. The four board members are elected for two-year terms. The mayor is elected for two years, presides over the board of aldermen, and votes only in case of a tie. The Mayor, Board of Aldermen, and other principal officials at June 30, 2000, were:

<u>Elected Officials</u>	<u>Term Expires</u>	<u>Compensation for the Year Ended June 30, 2000</u>	<u>Amount Of Bond</u>
Connie Denton, Mayor	April 2001	\$ 60	\$
Floyd Ellsworth, Alderman	April 2001	60	
Teresa West, Alderwoman (1)	April 2002	15	
BeLinda King-Jones, Alderwoman(2)	April 2001	0	
Robert Howe, Alderman	April 2001	60	
Barbara J. Sears, City Collector	April 2002	4,600	25,000
<u>Other Principal Officials</u>			
Donald E. Daniels, City Clerk (3)		1,680	
Irene Brownell, City Treasurer		1,275	5,000
Charles Middleton, City Marshal		24,000	
Wallace W. Trosen, City Attorney (4)		1,188	

- (1) Elected in April 2000 to replace Shelli Wyble.
- (2) Appointed June 29, 2000, to fill a position vacated after the April 2000 election. David Childers was in office until April 2000.
- (3) Resigned effective June 30, 2000.
- (4) Payments are made by the city to the law firm of Trosen & Williams, P.C. when legal services are rendered and billed to the city.

In addition to the officials above, the city has two full-time employees.

The Associate Circuit Judge of Adair County serves as the municipal judge. All city court cases and the related fines and court costs are handled by the Associate Circuit Division.

Assessed valuation and tax rate information for the tax year 1999 are as follows:

ASSESSED VALUATION

Real estate	\$ 805,209
Personal property	540,022
Railroad and utilities	<u>302,774</u>
Total	<u>\$1,648,005</u>

TAX RATE PER \$100 ASSESSED VALUATION

General Revenue	\$.43
General Revenue-temporary	<u>.35</u>
Total	\$ <u>.78</u>

The General Revenue-temporary levy is an additional voter-approved levy which expired in April 2000, at which time the voters extended the levy for an additional four years.

The city registered \$246,700 of combined waterworks and sewerage system refunding and improvement revenue bonds with the GMAC Commerce Mortgage Corporation on May 17, 1977. The city makes annual principal and interest payments of \$15,419 until the bonds are paid off on January 1, 2012. At June 30, 2000, the principal balance was \$118,423 and the city had a total of \$26,349 in certificates of deposit for repair and replacement and bond reserve.

A summary of the financial activity of the city of Novinger for the year ended June 30, 2000, is presented on the next page.

	General Fund	Water Fund	Sewer Fund	Law Enforcement Fund	Community Development Block Grant Fund	Garrison Fund	Total
RECEIPTS							
Property taxes	\$ 13,072	0	0	0	0	0	13,072
Motor fuel and motor vehicle fees	22,280	0	0	0	0	0	22,280
COPS grant proceeds	0	0	0	5,200	0	0	5,200
State of Missouri grant proceeds	0	0	0	0	11,726	0	11,726
Trash service fees	14,212	0	0	0	0	0	14,212
Utility franchise tax	9,547	0	0	0	0	0	9,547
Auto tax (city stickers)	1,837	0	0	0	0	0	1,837
Other taxes	1,026	0	0	0	0	0	1,026
Licenses and permits	1,062	0	0	0	0	0	1,062
Interest income	165	56	0	0	0	190	411
Water fees	0	86,854	0	0	0	0	86,854
Sewer fees	0	0	24,573	0	0	0	24,573
Traffic ticket fines	3,167	0	0	0	0	0	3,167
Other	691	0	0	0	0	0	691
Transfer In	0	2,178	0	0	0	0	2,178
Total Receipts	67,059	89,088	24,573	5,200	11,726	190	197,836
DISBURSEMENTS							
Salaries and fringe benefits	8,242	16,851	19,582	14,372	0	0	59,047
Insurance and bonds	6,717	0	0	0	0	0	6,717
Office and printing	1,224	0	0	0	0	0	1,224
Utilities	1,426	1,894	1,009	0	0	0	4,329
Repairs and maintenance	993	7,824	4,047	0	0	0	12,864
Street expenses	21,953	0	0	0	0	0	21,953
Police expenses	12,957	0	0	0	0	0	12,957
Legal expenses	1,188	0	0	0	0	0	1,188
Chemicals	0	0	1,293	0	0	0	1,293
Trash hauling fees	13,823	0	0	0	0	0	13,823
Grant engineering services	0	0	0	0	3,831	0	3,831
Grant construction	0	0	0	0	4,372	0	4,372
Grant administration	0	0	0	0	2,340	0	2,340
Bond principal and interest	0	15,420	0	0	0	0	15,420
Water purchases	0	41,292	0	0	0	0	41,292
Other	1,578	5,889	1,902	0	5	0	9,374
Transfer out	0	0	0	0	2,178	0	2,178
Total Disbursements	70,101	89,170	27,833	14,372	12,726	0	214,202
RECEIPTS OVER (UNDER) DISBURSEMENTS	(3,042)	(82)	(3,260)	(9,172)	(1,000)	190	(16,366)
CASH BALANCE, JULY 1, 1999	9,190	1,094	4,845	9,172	1,000	3,880	29,181
CASH BALANCE, JUNE 30, 2000	\$ 6,148	1,012	1,585	0	0	4,070	12,815

MANAGEMENT ADVISORY REPORT

CITY OF NOVINGER, MISSOURI
SUMMARY OF FINDINGS

1. Financial Condition (pages 11-12)

The City of Novinger is in poor financial condition. The city may owe \$53,231 to the federal government for non-compliance with a grant agreement, and the city needs to deposit \$44,633 into certificates of deposit which was received from an estate and inappropriately spent for city operating purposes. In addition, the city has incurred negative cash balances in the Water Fund.

2. Community Oriented Policing Services (COPS) Grant (page 12)

The city received a COPS grant award for hiring additional police officers, but instead, the city used the grant monies to pay the salary of the City Marshal. The city may have to pay back the entire amount received from this grant (\$53,231).

3. Garrison Estate Donations to City (pages 13-14)

In 1992 and 1994, the city received \$44,633 in donations from an estate which should have been deposited in certificates of deposit with the interest earnings used for the city's Christmas light project. The \$44,633 was instead spent for city operations.

4. Water, Sewer, and Trash Services (pages 14-16)

The city does not reconcile gallons of water pumped to gallons of water billed to customers, maintain adequate records of water meter deposits held, nor perform reconciliations of total billings, payments received, and delinquent amounts. The city is not depositing the required amount of monies into the Replacement and Extension Fund and has not prepared documentation of the costs of maintaining the water and sewer system to support the various rate increases. The city collects an administrative fee for trash service but has not documented the administrative costs of providing the service.

5. Expenditures (pages 17-19)

A formal bidding policy has not been adopted, several invoices or supporting documentation were not retained, invoices are not always initialed or dated to indicate receipt of goods or services, and invoices are not canceled to prevent duplicate payment. Fuel usage is not reconciled to fuel purchased. Written contracts have not been obtained for various services. Time sheets and leave records are not maintained for city employees.

6. Budgets and Financial Reporting (pages 19-22)

The city's budgets do not include some information required by state law and the city approved expenditures in excess of the budgeted amounts for various funds. The city has not published semi-annual financial statements, submitted annual financial reports to the State Auditor's Office, nor obtained annual audits of its combined waterworks and sewage system.

7. Ordinances and Board Minutes (pages 22-23)

The city has passed very few ordinances since 1984. The city has not passed ordinances describing the duties and compensation of elected officials, appointed officials, and other city employees. The board minutes are not signed by the Mayor or member of the board but only signed by the City Clerk, and some board minutes have not been retained.

8. Accounting Controls and Procedures (pages 23-27)

Improvement is needed in controls over cash receipts. The Mayor and City Clerk both sign checks but are not bonded. The board's monthly financial reports do not include some bills to be paid and do not include some financial resources of the city. Blank checks were signed in advance by the former Mayor, some checks did not have the required dual signatures, and some voided checks were not properly defaced. The city does not maintain a general ledger and does not properly reconcile its bank accounts.

9. Property Tax Procedures (pages 27-28)

The city has not held hearings for the proposed property tax levies. The City Collector prepares the tax books, while state law requires the City Clerk to prepare the tax books. The City Collector does not prepare annual reports of property tax charges, collections, and delinquent amounts, and the city does not adequately pursue the collection of delinquent taxes.

10. Banking Depositary Agreement and Proposals (pages 28-29)

The city does not have a written banking agreement with its depositary bank and has not solicited banking proposals on a periodic basis.

11. Access to City Records (pages 29-30)

The city does not have a formal policy regarding public access to city records. Some city records are maintained at residences of some city officials, the records located at city hall are not always filed in an orderly manner, and some records could not be located.

12. City Property (pages 30-31)

Records to account for city-owned property are not maintained, bids were not solicited for the sale of a city patrol car, and usage and maintenance logs are not maintained for the city vehicles or equipment.

13. City Traffic Tickets (pages 31-32)

Traffic tickets are not issued in numerical sequence and records are not maintained for the issuance and disposition of each ticket.

CITY OF NOVINGER, MISSOURI
MANAGEMENT ADVISORY REPORT

1.	Financial Condition
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The City of Novinger is in poor financial condition. The city may have to refund \$53,231 to the U.S. Department of Justice of federal grant proceeds because the city did not use this money in accordance with the grant agreement (See Management Advisory Report (MAR) No. 2). In addition, the city received \$44,633 in donations from an estate which should have been set aside in certificates of deposit and the interest earnings to be used for the city's Christmas light project. Instead, the city has spent this money for city operations and the city needs to deposit this money in certificates of deposit to comply with the provisions of the estate (See MAR No. 3). The city has a combined balance of only \$8,745 in operating funds at June 30, 2000. In addition, the bank balance of the Water Fund was overdrawn on several different occasions during the last two fiscal years, and the city needs to deposit additional funds in the Replacement and Extension Fund to comply with the city's bond covenants (See MAR No. 4).

The Board of Aldermen does not adequately monitor the financial condition of the city. Monthly financial reports provided to the board do not include sufficient detail of the city's expenditures. The board does not periodically compare actual revenues and expenditures to budgeted amounts, and the city has overspent its budgets during the years ended June 30, 2000 and 1999. In addition, the city does not maintain adequate accounting records. General ledgers are not maintained for each fund, and bank reconciliations are not adequately prepared (See MAR's No. 6 and 8).

The Board of Aldermen needs to establish a plan to make the repayments of unallowable federal grant proceeds and to set aside the required amounts for the Christmas light project, and prepare a budget which reflects this plan. The board needs to review the financial activity of the Water Fund and set rates to adequately fund operations and set aside the required amount of money in the Replacement and Extension Fund. In addition, the board needs to ensure an effective system of accounting and administrative controls are in place, including an effective financial reporting system and procedures to monitor budgeted and actual activity. The recommendations contained in the remaining MAR's, if implemented, will help establish these controls and procedures.

WE RECOMMEND the Board of Aldermen review the current financial situation of the city and make plans to pay the amounts owed to the federal government, set aside the required amounts for the Christmas light project, and deposit sufficient monies in the Replacement and Extension Fund.

AUDITEE'S RESPONSE

We concur that the funds listed appear to have been mishandled. We would like to cover the shortage on the Replacement and Extension Fund within one year. Replacing the Garrison

monies would take some time to do, but would be manageable if done over a four to five year span. The COPS grant funds will have to be negotiated after the Department of Justice has completed their investigation.

2. Community Oriented Policing Services (COPS) Grant

The city has a City Marshal who has been employed for several years to provide police protection for the city. The city applied for and in April 1997 received a Community Oriented Policing Services (COPS) grant through the U.S. Department of Justice (DOJ) for one additional full-time police officer and one additional part-time police officer. The grant award was \$78,903 for the three year period ending March 31, 2000. In addition, the city is required to provide matching funds of \$26,301. The city received the first payment from the DOJ in July 1997. The city opened a separate bank account for the deposit and disbursement of the federal grant monies.

Since the approval of the grant, it appears the city has not hired any additional police officers, but instead, uses the grant monies, along with matching city funds, to pay the salary of the City Marshal. This is contradictory to the conditions of the grant award which stipulates that the grant funds must be used to hire one or more new, additional career law enforcement officers, beyond the number of officers that would be hired or employed by the grantee in the absence of the grant.

In addition, the quarterly financial status reports prepared by the city are not accurate. While the expenditures for each quarter appear to be accurately reported, the cumulative grant expenditures were not reported accurately or were not reported at all.

Since the inception of the grant, the city received \$53,231 in federal COPS grant proceeds. Because the city failed to hire additional police officers, the city could be required to pay back the entire amount received from the COPS grant. The board should contact the DOJ to determine what actions should be taken to resolve this issue and determine if the grant proceeds should be paid back to the DOJ.

WE RECOMMEND the Board of Aldermen contact the U. S. Department of Justice and resolve this matter.

AUDITEE'S RESPONSE

We concur that the city is not probably in compliance with the terms of the grant. The Mayor has been in contact with the Department of Justice and we will follow through with their recommendations upon completion of their investigation.

3.**Garrison Estate Donations to City**

The city received \$35,000 in October 1992 and \$9,633 in January 1994 from the Associate Circuit Court-Probate Division of Adair County in donations from the estate of Oneita Garrison. The stipulation of the donation was that the city use the money in accordance with the terms of her last will and testament. This document directed the city board of aldermen to invest the sum received in a certificate of deposit in a bank of its choice, with the income from the investment to be used for the Christmas tree lighting project commenced by the city a few years before. According to discussions with city officials, the donated monies were not used for the lighting project nor put in a certificate of deposit.

City records indicate that \$17,500 of the initial proceeds was put into a special savings account in October 1992. The monies were then transferred into the General Fund in March 1993 and, according to the City Clerk, spent for the purchase of a used motor grader (with a trade-in of the city's old grader) and for the purchase of and labor for installing a new metal building next to the city's water building. These expenditures totaled \$16,235, and the remaining \$1,265 was not identified to specific expenditures. The remaining \$17,500 from the initial proceeds was put into another savings account and various transfers were made from this account in 1993 and 1994 to the General Fund and Water Fund for operating expenses. City records noted that \$13,500 was transferred to the Water Fund and used for water tower repair (\$10,000) and other operating expenses. Transfers to the General Fund totaled \$4,000. In addition, the \$9,633 received in January 1994 was also placed in the General Fund and spent for general operating purposes for the city.

The board minutes during this period of time did not include any references to the receipt of the donations, how the monies were going to be spent, the deposit of monies into the savings accounts, or the actual use of the monies. It appears the city did not use the donations in accordance with the provisions of the last will and testament. At June 30, 2000, the city has \$1,456 remaining in the savings account related to the donated monies, which includes interest earned on the donations and \$418 which was already in the savings account prior to October 1992. In addition, the city has a certificate of deposit which was opened in 1985 for \$1,000 (with a current balance of \$2,613) which appears to be an additional donation from Oneita Garrison. The city has no records of the purpose of this donation and it appears there has been no activity in this account other than accumulated interest earnings.

The current city officials should review this situation with legal counsel and with the former city officials who were in office during the time of the donations. Based on available documentation, it appears the city will need to transfer \$31,133 from the General Fund and \$13,500 from the Water Fund into certificates of deposit in accordance with the provisions of the Garrison estate, and the income from the certificates of deposit should be used on the city's Christmas light project. In addition, the city should review

the \$1,000 donation received in 1985 and determine the appropriate disposition of this money.

WE RECOMMEND the Board of Aldermen review this matter with applicable former city officials and with legal counsel, and make arrangements to transfer monies into certificates of deposit to adhere to the provisions of the Garrison estate.

AUDITEE'S RESPONSE

We concur that the monies were not used as designated in Mrs. Garrison's will. We will consult the City Attorney as to any legal actions that may ensue due to misuse of the funds. We agree that the monies should be replaced and used for their intended purpose as quickly as possible, and to start setting aside funds within the next six months.

4. Water, Sewer, and Trash Services
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- A. The city purchases its water supply from a public water supply district. The city does not compare or reconcile gallons of water purchased to gallons of water pumped from the city's water tower. In addition, the city does not reconcile gallons of water pumped to gallons of water billed to customers.

To help detect any significant water loss on a timely basis and to help ensure all water usage is properly billed, the city should reconcile gallons of water pumped to gallons of water billed to customers on a monthly basis and compare these amounts to gallons of water purchased. Significant differences should be investigated.

- B. The city does not maintain adequate records of water meter deposits held in the Water Fund. A sheet with names and deposit amounts was located, and this sheet has lines through names, apparently to indicate refunds of deposits were made; however, it appears the list has not been updated in several years and the total amount of deposits from city residents cannot readily be determined.

To ensure the city is properly holding water deposits from city customers, an accurate list of water deposits held by the city should be prepared, which includes the deposit amount and date received from each customer and the dates and amounts of all deposit refunds.

- C. The city does not perform monthly reconciliations of total billings, payments received, and amounts remaining unpaid for water and sewer services.

Monthly reconciliations are necessary to ensure that all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis. Complete documentation of the reconciliation

should be retained to support conclusions and any corrections made and to facilitate independent review.

- D. The city's combined waterworks and sewage system bond covenant requires that amounts be set aside into a Bond Reserve Fund and a Replacement and Extension Fund with the aggregate amount totaling \$16,000 into each fund. The city has certificates of deposit held especially for these funds; however, at June 30, 2000, the city only had \$7,917 for the Replacement and Extension Fund, and the city has not been making any deposits to this fund during the current fiscal year. The certificates of deposit for the Bond Reserve Fund totaled \$18,432 at June 30, 2000, exceeding the amount required of \$16,000. It appears the excess amount in the Bond Reserve Fund could be transferred to the Replacement and Extension Fund.

To ensure the city has complied with the bond covenant restrictions, the city should deposit additional monies into the Replacement and Extension Fund until the amount has reached the required amount of deposit.

- E. The Water Fund operating account has incurred overdraft charges since July 1998, and as stated above, the city has not properly funded the Replacement and Extension Fund. Although the city has increased its water and sewer rates five times beginning in August 1990, it appears the rates may not be adequately covering the current operating costs. The most recent increase was mainly due to the city having to connect its water system to the public water supply district. The city has not retained documentation to support the costs associated with maintaining the water and sewer system and the various rate increases.

The city should perform a detailed review of its combined waterworks and sewer system, including depreciation and debt service costs, and set rates to cover the total costs of operation. In addition, the city should more closely monitor the Water Fund bank account to ensure that checks written do not exceed the cash balance and to avoid bank service charges.

- F. The city charges its residents a monthly fee of \$5.50 for trash pick-up. These fees are included along with the water and sewer charges in the monthly utility bills. The city retains an administrative fee of \$.25 per customer in the General Fund and disburses the remainder of \$5.25 per customer to the disposal company. The city receives total administrative fees of approximately \$600 per year. The city has not documented the administrative costs of providing trash collection services.

The administrative costs of providing trash collection services should be calculated and documented. The user fee charged to city residents should be set at a level sufficient to cover the cost of the service.

WE RECOMMEND the Board of Aldermen:

- A. Reconcile gallons of water pumped to gallons of water billed to customers on a monthly basis and compare these amounts to gallons of water purchased. Any significant differences should be documented and investigated.
- B. Prepare accurate records of water meter deposits held by the city.
- C. Perform monthly reconciliations of the amounts billed to amounts collected and delinquent accounts. The board should periodically review related records to ensure amounts recorded on the records are accurate.
- D. Deposit amounts into the Replacement and Extension Fund to reach the amount required by the bond covenant.
- E. Review water and sewer rates periodically to ensure revenues are sufficient to cover all costs of providing service and document the costs of operation of providing the service and necessary increases in rates. In addition, the board should review the Water Fund bank balance on a regular basis and not incur bank overdraft service charges.
- F. Review the city's cost of administering the trash pick-up service and document the amount of administration costs associated with the service.

AUDITEE'S RESPONSE

A&C. We concur. These were implemented as of July 1, 2000.

B. We concur. The current list of users and amounts of their deposits shall be brought up to date to the best of our abilities. Those monies will be designated so that proper tracking of refunds can be maintained.

D. We concur. We will attempt to transfer amounts monthly to the Replacement and Extension Fund to bring it into compliance within one year. We will attempt to start this process in August, 2000.

E. We concur. Both water and sewer rates should be reviewed at least every six months. We started this process by reviewing both rates in June, 2000.

F. We concur. We will compute the figures to document the current rate and administrative costs.

- A. The city does not have a formal bidding policy. Formal quotes or bid proposals are not solicited by the city on expenditures and some items are considered sole source purchases. During fiscal years 1999 and 2000, the city spent \$13,352 for insurance coverage, \$3,604 for sewer chemicals, and \$5,333 for gas and diesel fuel from the same vendors without soliciting bids or price quotes from other vendors. Also, during fiscal year 1999, the city paid over \$6,100 for plumbing materials from the same company (10 different invoices), and paid \$1,614 for replacing a water valve at the water tower without obtaining bids.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given equal opportunity to participate in the city's business. Bids can be handled by telephone quotation, by written quotation, by sealed bids, or by advertised sealed bids. Various approaches are appropriate, based on the dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the winning bid was selected.

- B. Original invoices or other supporting documentation was not retained for several expenditures. To ensure that city expenditures are proper, adequate supporting documentation should be approved and retained for all city expenditures.
- C. Invoices and other supporting documentation are not always initialed or dated by a city employee to indicate receipt and acceptance of the goods or services. In addition, the invoices are not canceled upon payment.

To ensure that goods and services have been properly received by the city, all invoices and other supporting documentation should be properly initialed or signed by a city employee upon receipt. To ensure against duplicate payment of bills, invoices should be marked paid when a check has been issued by the city.

- D. The city purchases gasoline and diesel fuel in bulk and stores the fuel in city-owned tanks. During fiscal years 1999 and 2000, the city spent approximately \$2,600 on fuel per year. Our review noted the following concerns regarding fuel expenditures:
- 1) The diesel tank is not metered and diesel fuel usage is not recorded. While a log is maintained to record the amount of gasoline pumped from the city's metered tank, the log is not reconciled on a monthly or periodic basis to the gallons purchased.

To ensure that fuel expenditures are reasonable and that fuel is properly accounted for, all city fuel tanks should be metered and logs should be maintained for all fuel usage. The usage recorded on the fuel logs should be reconciled to fuel purchased on a periodic basis and significant differences should be investigated.

- 2) The city allocates the cost of gasoline to the various city funds based on an estimated percentage of the amounts used for the police car and amounts used by water and sewer vehicles. These percentages apparently are estimates based on usage data from several years ago, and the city had no documentation to support these estimates. Gasoline expenditures should be allocated to the various city funds based on actual usage or estimated usage based on historical data.

- E. The city has not entered into formal written contracts for various services obtained and provided. These services include legal services obtained and providing the use of city-owned property for agricultural purposes.

Section 432.070, RSMo 1994, requires contracts of political subdivisions be in writing. The city should enter into written contracts for services rendered or obtained. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protections to both parties.

- F. Time sheets and records of leave earned and taken are not maintained for the two city employees.

To ensure payroll expenditures are proper, time sheets showing hours worked and leave records showing amounts earned, taken, and balances should be maintained and properly approved by a supervisor.

WE RECOMMEND the Board of Aldermen:

- A. Establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected.
- B. Ensure that invoices or other supporting documentation are maintained to support all city expenditures.
- C. Require all invoices be initialed or signed by a city employee to indicate acceptance of the goods or services, and all invoices be canceled when paid.

- D.1. Obtain a meter for the diesel fuel tank and record all fuel usage on usage logs. Fuel usage should be reconciled to fuel purchases and significant differences should be investigated.
- 2. Allocate gasoline costs to the various city funds based on actual usage or on estimated usage which is based on historical information.
- E. Require all contracts to be in writing as required by state law.
- F. Require timesheets and leave records be prepared for all city employees which are reviewed and approved by a supervisor.

AUDITEE'S RESPONSE

- A. *We concur. We are reviewing an ordinance to put policies in place within the next two months.*
- B,C,
&D.1. *We concur. These will be implemented immediately.*
- D.2. *We concur. We believe gasoline costs should be allocated based on actual usage. This will be implemented immediately.*
- E. *We concur. We will consult with the City Attorney to see that proper contracts are written and signed for both situations. This should be done within the next two months.*
- F. *We concur. Steps have been taken to correct this problem starting with the July 16, 2000, pay cycle.*

6.	Budgets and Financial Reporting
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- A. During our review of the city's budgets and related procedures, we noted the following concerns:
 - 1) The city's annual budgets do not contain a budget message and a comparative statement of estimated or actual receipts and expenditures for the two preceding years, as required by state law.

Section 67.010, RSMo 1994, provides that the city's budget shall present a complete financial plan for the ensuing budget year, including a budget message and a comparative statement of receipts and disbursements for the two previous years.
 - 2) The City Clerk prepares the annual budgets; however, city ordinances provide that the Mayor shall serve as the budget officer and prepare the

annual budget. In addition, the budget for the year beginning July 1, 1999, was not approved by the board until the meeting in August 1999. Section 67.030, RSMo 1994, requires the budgets to be approved prior to the beginning of the fiscal year.

The budgets should be prepared in accordance with the city ordinances and be approved by the board prior to the beginning of the fiscal year.

- 3) The city approved expenditures in excess of the budgeted amounts for various funds as follows:

Year Ended June 30, 2000

<u>Fund</u>	<u>Budgeted Amount</u>	<u>Actual Expenditures</u>	<u>Actual over Budget</u>
General	\$46,455	48,149	1,694
Sewer	23,077	27,833	4,756

Year Ended June 30, 1999

<u>Fund</u>	<u>Budgeted Amount</u>	<u>Actual Expenditures</u>	<u>Actual over Budget</u>
General	\$42,010	44,681	2,671
Water and Sewer	83,052	96,430	13,378
Street	18,060	21,679	3,619

The Board of Aldermen does not periodically compare budgeted amounts to actual expenditures. Periodic comparisons of budget and actual data are necessary to ensure the city is operating within the budgetary constraints. If budget amendments are necessary, Section 67.040, RSMo 1994, allows the board to amend the budgets by formal resolution.

- B. The city has not published semi-annual financial statements as required by state law. Section 79.160, RSMo 1994, and Section 13.400 of the city code require the Board of Aldermen to prepare and publish semi-annual financial statements. In addition, Section 79.165, RSMo 1994, states the city treasurer cannot legally disburse funds until the financial statement is published.
- C. The city has not submitted annual financial reports to the State Auditor's Office for the years ended June 30, 1999 and 1998, as required by state law. The last financial report submitted was for the year ended June 30, 1997. The city has in the past hired an accountant/bookkeeper from a nearby city to prepare financial reports for the city and to prepare the annual reports to the State Auditor's Office. However, the city has not used the services of this person for over two years and has not prepared the required annual financial reports.

Section 105.145, RSMo 1994, requires political subdivisions to file an annual report of the financial transactions of the political subdivision with the State Auditor's Office.

- D. The city has not obtained annual audits of its combined waterworks and sewage system as required by state law and the bond covenants. Section 250.150, RSMo 1994, requires the city to obtain annual audits, and the cost of the audits is to be paid from the revenues received from the system.

Besides being required by state law, regular audits of the water and sewer system (and other city funds) would better enable the city to:

1. Ascertain the stewardship of the public officials who handle and are responsible for the financial resources of the city.
2. Determine the propriety and accuracy of its financial transactions.
3. Ensure the revenues of the sewer system are adequate to meet the expenses of providing this service.

WE RECOMMEND the Board of Aldermen:

- A.1. Ensure the budgets include a budget message and comparisons of the prior two years' revenues and expenditures, as required by state law.
2. Require the Mayor to prepare the budgets as required by city ordinance or amend the ordinance. In addition, the budgets should be prepared and approved prior to the beginning of the fiscal year as required by state law.
3. Periodically compare budget and actual expenditures and keep expenditures within the budgetary limits. If budget amendments are necessary, formal resolutions should be adopted as required by state law.
- B. Publish semi-annual financial statements as required by state law and city ordinance.
- C. Submit annual financial reports to the State Auditor's Office as required by state law.
- D. Obtain annual audits of the combined waterworks and sewage system as required by state law and the bond covenants.

AUDITEE'S RESPONSE

A.1.

&2. *We concur. These procedures were included in the budget for the year ending June 30, 2001.*

A.3. *We concur. This will be done on a monthly basis as soon as we put a new accounting system into place.*

B&C. *We concur. These will be implemented as soon as figures are ready to prepare the reports as of June 30, 2000.*

D. *We concur. This will be done starting with the year ending June 30, 2001.*

7. Ordinances and Board Minutes
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A. The city's ordinances were codified in 1984. Although many board decisions and policies are documented in the minutes, it appears the board has rarely adopted ordinances since the ordinances were codified. The city could only locate two ordinances adopted since 1984. The board has not adopted ordinances regarding such items as election procedures, personnel policies and procedures, bidding policies and procedures, tax rates, and all utility-related policies and procedures including water, sewer, and trash rates. These items should be set forth in ordinances to give the taxpayers information on how the city is to be governed.

B. The city has not adopted ordinances to establish the compensation and duties of its elected officials including the Mayor, Board of Aldermen, and City Collector, and appointed officials and employees including the City Clerk, City Marshal, and City Treasurer. Section 79.270, RSMo 1994, requires the compensation of officials and employees to be set by ordinance, and the salary of an official shall not be changed during the term of election or appointment.

Compensation rates set by ordinance, in addition to meeting statutory requirements, document the approved amounts to be paid and eliminate potential misunderstandings on the amount each city official and employee is to receive, and is necessary to ensure the compensation of an official is not changed during the term of office. Ordinance hearings provide for public input and information concerning the compensation paid. In addition, documentation of duties and job descriptions would clarify the duties and responsibilities of each official and employee and prevent misunderstandings.

C. The board minutes are signed only by the City Clerk and are not signed by the Mayor or a member of the Board of Aldermen. The board minutes should be signed by the Mayor or member of the Board of Aldermen to provide an

independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.

- D. Some board minutes have not been retained. Numerous monthly minutes of board meetings were not included in the current minute notebook, which dates back to 1989. Minutes of the monthly Board of Aldermen meetings are permanent records of the proceedings of the board meetings and should be properly retained for future reference.

WE RECOMMEND the Board of Aldermen:

- A. Pass ordinances for all significant decision, policies, and procedures that are intended to govern the city and its citizens. All ordinances should be maintained in an orderly manner.
- B. Establish by ordinance the duties and compensation of all city officials and employees.
- C. Require the Mayor or a member of the board to sign the board minutes in addition to the City Clerk's signature.
- D. Ensure all board minutes are retained.

AUDITEE'S RESPONSE

A&C. We concur. These will be implemented immediately.

B. We concur. Some ordinances are in place but need to be updated. This will be an ongoing project for quite some time.

D. We concur.

8. Accounting Controls and Procedures
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- A. Our review noted the following concerns regarding controls over receipts:

- 1) Pre-numbered receipt slips are not issued by the city for the receipt of monies and receipt slips were not issued for some monies received. Unnumbered receipt slips are used by the city and are numbered consecutively as written. Receipt numbers are not always used sequentially and no one keeps track of the numerical sequence. Some receipt books were only partially used, numerous receipt slips issued were not numbered, and some receipt numbers were used more than once. In addition, the former Mayor issued many receipt slips during a period of

time, and it appears some duplicate receipt slips were issued by both the City Collector and the former Mayor.

To adequately account for all receipts, pre-numbered receipt slips should be issued in numerical order for all receipts and the numerical sequence should be accounted for properly.

- 2) The method of payment received (i.e. cash, check, money order) is not always recorded on the receipt slips issued nor on the daily receipts ledger maintained by the City Collector. To ensure all receipts have been recorded properly and deposited intact, the method of payment received should be recorded on each receipt slip or on the daily receipts ledger. The composition of receipt slips issued should be reconciled to the composition of bank deposits.
 - 3) Receipts are not always deposited intact on a timely basis. While monies are generally deposited about three times a week, some monies were held and not deposited for up to two weeks later. To adequately safeguard receipts and reduce the risk of loss or misuse of funds, all receipts should be deposited intact daily or when accumulated receipts exceed \$100.
- B. The City Clerk prepares checks and the City Clerk and Mayor both co-sign the checks. It appears check preparation and signing duties should be performed by the City Treasurer. Section 79.300, RSMo 1994, requires the City Treasurer to disburse the monies from the city treasury upon properly authorized warrants approved by the board of aldermen, signed by the Mayor, and attested to by the City Clerk.
- C. Checks issued by the city require two signatures, the Mayor and the City Clerk; however, these people are not bonded by the city. Failure to adequately bond city employees that handle monies exposes the city to the risk of loss.
- D. The City Clerk prepares monthly financial reports for board approval, which includes total disbursements made during the most recently completed month. The report also lists individual bills to be paid, but only those bills incurred from the beginning of the month up to the time of the board meeting (normally the second Thursday of the month). The bills or invoices that are paid subsequent to the board meeting until the end of the month are not reviewed or approved individually, but are included in the total disbursements on the next month's report.

Good business practices require all disbursements to be closely scrutinized by the board and properly authorized. Failure to properly review and approve all individual disbursements, including invoices and other supporting documentation, increases the possibility of inappropriate disbursements occurring.

E. The monthly financial reports prepared by the City Clerk do not include the activity of the city's savings account and certificates of deposit. At June 30, 2000, the city had \$1,456 in a savings account and \$2,613 in a certificate of deposit for the Garrison Fund and \$26,349 in certificates of deposit for the Combined Waterworks and Sewer Fund. To properly account for all city financial resources, the monthly reports of financial information presented to the Board of Aldermen each month should contain the financial activity of all city funds and bank accounts.

F. Our review of the controls over checks noted the following:

- 1) The City Clerk indicated that prior to April 1999, the former Mayor occasionally signed blank checks prior to preparation of the checks by the City Clerk. Upon the election of the current Mayor in April 1999, this practice of pre-signing checks was apparently ceased. The bank sometimes processed checks with only the signature of the City Clerk although dual signatures are required.

Good business practices dictate that blank checks should not be pre-signed but signed only after a proper review has been made of the required expenditure. All checks drawn on the city treasury should have the dual signatures as required by city policy.

- 2) Some voided checks were not properly marked as being void or properly defaced but were only stapled back to the check stub. Voided checks should be marked as void or properly defaced.

G. The City Clerk prepares a disbursement ledger for each fund detailing the information about each check written, and the City Clerk prepares a monthly financial report for the Board of Aldermen. However, neither the City Clerk or City Treasurer maintains a general ledger that shows monthly or periodic fund balances.

To ensure all receipts, disbursements, and fund balances are properly and accurately recorded, the city should maintain a general ledger for each fund.

H. Bank reconciliations are not prepared. There are no book or ledger balances to which the bank balances can be compared (as noted in Part G. above). The city has two outstanding checks from 1998 totaling \$187 that are still outstanding and no follow up action has been taken regarding these checks. Because reconciliations are not prepared, city officials were not aware that these checks were outstanding.

Bank reconciliations are necessary to ensure that the bank accounts properly reconcile with the accounting records and to detect errors on a timely basis.

WE RECOMMEND the Board of Aldermen:

- A.1. Require pre-numbered receipt slips be issued for all monies received, and the numerical sequence be accounted for properly.
- 2. Ensure the method of payment is recorded on the receipt slips or daily ledger and the composition of receipt slips issued is reconciled to bank deposits.
- 3. Ensure all receipts are deposited intact daily or when accumulated receipts exceed \$100.
- B. Require the City Treasurer to disburse monies from the city treasury in accordance with state law.
- C. Ensure all employees with access to city assets are appropriately bonded.
- D. Ensure each individual disbursement is listed on the monthly report for approval and review all invoices or supporting documentation.
- E. Require the monthly financial report presented to the board to include all funds and bank accounts held by the city.
- F.1. Ensure that blank checks are not pre-signed and include dual signatures as required by city policy.
- 2. Ensure all voided checks are properly defaced and retained.
- G. Ensure a general ledger is maintained for all city funds which includes all receipts, disbursements, and fund balances.
- H. Ensure monthly bank reconciliations are prepared for all bank accounts and documentation of the reconciliations is retained. The old outstanding checks should be investigated and resolved.

AUDITEE'S RESPONSE

A.1,B,
E,&

F.1. *We concur. These have already been implemented.*

A.2,3,
C,D,
F.2,

&H. *We concur. These will be implemented immediately.*

- G. *We concur. We would like to computerize the accounting functions of the city and would like to put this in place within two months.*

9. Property Tax Procedures

- A. The Board of Aldermen has not held public hearings on the city's proposed tax rates. The board minutes for 1999 did not contain information concerning setting the tax levy or the holding of any public hearing. The minutes for 1998 indicate that the tax levy was set at a certain amount but did not indicate whether any public hearing was held before the levy was set.

Section 67.110, RSMo 1994, requires each governing body to hold at least one public hearing prior to approval of the proposed tax rates at which citizens may be heard. This section also provides guidance on what information is to be included at the public hearing.

- B. The City Collector prepares the city's property tax books and receives \$150 in compensation for these duties. Section 94.290, RSMo 1994, and Section 16.050 of the city code require the City Clerk to extend the city's tax books and charge the City Collector with the amount of the tax books.

To ensure compliance with state law and to ensure proper control over property tax charges and collections, the City Clerk should prepare the property tax books or review and verify the tax books, and charge the City Collector with the total property taxes to be collected.

- C. The City Collector does not prepare annual reports to the Board of Aldermen of charges, collections, and amounts uncollected as required by state law. Also, the City Collector is not preparing a list of delinquent taxes to present to the Board of Aldermen in April of the subsequent year as required by state law.

Section 79.310, RSMo 1994, requires the City Collector to prepare annual reports to the Board of Aldermen of collections and amounts uncollected. Section 94.320, RSMo 1994, requires the City Collector to prepare lists of delinquent taxpayers and amounts to be collected and present the list in April of each year to the Board of Aldermen.

- D. The city does not adequately pursue collection of delinquent property taxes. The city has delinquent tax bills totaling \$1,565 as of June 20, 2000, which have not been pursued or collected.

To help ensure prompt collection of property taxes, the city should establish formal procedures regarding the collection of delinquent property tax bills. Consideration should be given on sending delinquent tax notices or turning

delinquent tax bills over to the County Collector for advertisement and sale of the real estate as provided under Chapter 140, RSMo 1994.

WE RECOMMEND the Board of Aldermen:

- A. Hold public hearings on setting the annual tax levy as required by state law and record this information in the board minutes.
- B. Require the City Clerk to prepare the tax books as required by state law and city ordinance, or ensure the City Clerk reviews the tax books and charges the City Collector with the total taxes to be collected.
- C. Require the City Collector to file an annual report of the charges, collections, and amounts uncollected for property taxes as required by state law. The City Collector should also file a delinquent list of all amounts unpaid with the board in April of each year as required by state law.
- D. Ensure formal collection procedures related to delinquent property tax bills are established and that delinquent accounts are pursued on a timely basis.

AUDITEE'S RESPONSE

A&C. We concur. These will be implemented immediately.

B. We concur. We will determine the feasibility of having city property taxes collected by the Adair County Collector. We would like to put this in place for the collection of 2001 taxes.

D. We concur. We will follow up on the collection of back taxes upon completion of the listing to be prepared by the City Collector.

10. Banking Depositary Agreement and Proposals

The city does not have a written agreement with its current depositary bank as authorized by Section 95.355, RSMo 1994. A written depositary contract helps both the bank and the city understand and comply with the requirements of any banking arrangement. In addition, the city has not periodically solicited proposals from various banking institutions for the deposit of city monies. Section 16.010 of the city code provides for a review of the depositary banks on a periodic basis. The city currently pays for service charges (such as check printing, stop payments, and returned checks) which are not normally incurred by governmental entities, so it appears the city may save on banking costs if banking proposals were solicited.

The contract's provisions should include, but not be limited to, collateral security requirements; any bank fees for check printing, checking account services, and safe

deposit boxes; interest charges on any borrowed funds; and interest rates for invested funds. A periodic evaluation of proposals from various banking institutions would provide the board with current opportunities for making sound banking decisions.

WE RECOMMEND the Board of Aldermen enter into a written agreement with its depositary bank. In addition, the Board of Aldermen should consider soliciting proposals from various banking institutions on a periodic basis.

AUDITEE'S RESPONSE

We concur. We will seek bids on all banking services for fiscal year 2001/2002. In addition, bids will be solicited for all certificates of deposit when they come due.

11. Access to City Records

- A. The city does not have a formal policy regarding public access to city records. A formal policy regarding access to and obtaining copies of city records would establish guidelines for the city to make the records available to the public. This policy should establish a person to contact and an address to mail requests for access to records and should establish a cost for providing copies of public records.

Section 610.023, RSMo Cumulative Supp. 1999, lists requirements for making city records available to the public, and Section 610.026, RSMo Cumulative Supp. 1999, allows the city to charge fees for copying public records, but the fees shall not exceed the city's actual cost of document search and duplication.

- B. Some city officials do not have regular working hours at the city hall and perform city work at their home. Some city records are maintained at the residences of these city officials and are not kept at city hall. In addition, it appears that city records located at city hall are not always filed in an orderly manner, and city officials were not able to readily locate certain records at our request.

In April 1999, the Mayor requested in writing for the City Clerk to furnish certain city records for her review. City Ordinance 13.510 and Section 79.350, RSMo 1994, allows the Mayor and Board of Aldermen to inspect city records as often as deemed necessary. However, the City Clerk did not respond to the Mayor's request.

City records should be properly maintained where access is available for proper review of the records by the Mayor and Board of Aldermen or by the public if applicable requests are made.

WE RECOMMEND the Board of Aldermen:

- A. Establish written policies and procedures regarding public access to city records.
- B. Ensure all city records are maintained at city hall in a manner in which they can be readily located, and that requests to review records are complied with in accordance with city ordinance and state law.

AUDITEE'S RESPONSE

- A. *We concur. We will attempt to pass an ordinance within two months.*
- B. *We concur. This will be a lengthy process but will try to have all records within easy access within the next six months.*

12. City Property

- A. The city has not established records to account for city-owned property. Property records are necessary to ensure better internal controls over assets and provide a basis for determining insurance coverage.

The city should establish detailed property records. All property items (including land) should be recorded at historical cost or estimated historical cost, if historical cost is not available. The records should be maintained on a perpetual basis, accounting for fixed asset acquisitions and dispositions as they occur. In addition, all items should be identified as city property with a tag or similar device.

- B. The city sold a patrol car in September 1998 without advertising the sale of the car or soliciting bids. The car was sold to the son of the City Marshal for \$600.

City officials indicated the city put a "For Sale" sign on the car for a period of time; however, the city determined the initial asking price was too high after two automobile dealers looked at the car. The board minutes included a motion to sell the old car for \$600, but the minutes did not indicate that the car was sold to the City Marshal's son, and there is no other documentation of how the initial asking price or final sale price were determined and why bids were not solicited.

To ensure the city receives the fair value for the sale of city-owned property and that city residents have proper opportunity to bid on the property, bids should be solicited for all sales of major city property and documentation should be retained of all decisions made.

- C. The city has one pickup truck, which is driven by the water/sewer and street employees, and one police car, which is driven by the City Marshal. In addition

to vehicles, the city also owns equipment including a backhoe. Daily usage and maintenance logs are not maintained for the city vehicles or equipment.

Logs should be maintained indicating the employee using the vehicle or equipment, the purpose and destination of the trip, the beginning and ending odometer readings, and the operation and maintenance costs. The logs should be reviewed by the board to help ensure there is no inappropriate personal use of the city's vehicles or equipment, verify the propriety of fuel and/or repair billings, and identify the need to replace the vehicle or equipment due to excessive maintenance costs.

WE RECOMMEND the Board of Aldermen:

- A. Ensure complete and detailed property records are established that account for all property items of the city. These records should be updated for any property additions or dispositions as they occur, and all items should be tagged or otherwise identified as city property. In addition, physical inventories of all city-owned property should be performed periodically to ensure that all assets are accounted for properly.
- B. Advertise the sale of city-owned property and document all bids received and decisions made.
- C. Require daily usage and maintenance logs be maintained for the city vehicles and equipment, and perform a periodic review of the logs.

AUDITEE'S RESPONSE

- A. *We concur. Some property listings have been compiled but others are needed to bring the listing up-to-date. This will take a few months to complete. We will attempt to implement a tagging procedure within the next six months.*
- B&C. *We concur. These will be implemented immediately.*

13. City Traffic Tickets

The City Marshal issues traffic tickets which are sent through the City Attorney to the Associate Circuit Division at the Adair County courthouse. The Associate Circuit Division remits monthly to the city the fines and police training fees collected along with a computer printout of the disposition of the tickets. Our review noted the City Marshal does not issue traffic tickets in numerical sequence. In addition, the city does not maintain a log or other record to account for each ticket issued and the ultimate disposition.

To ensure all tickets have been accounted for properly, a log noting the ticket number, date issued, offense, defendant's name, and disposition of the ticket should be maintained.

WE RECOMMEND the Board of Aldermen require the City Marshal to issue traffic tickets in numerical sequence and maintain a log of each ticket issued and its ultimate disposition.

AUDITEE'S RESPONSE

We concur. This will be implemented immediately.

This report is intended for the information of the city's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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